

## AFRICA RISK CONSULTING

### Mozambique Monthly Briefing June 2017

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#### Mozambique Summary 15 June 2017

*The opposition Resistencia Nacional Moçambicana (Renamo) party accuses the government of truce violations. President Filipe Nyusi (2015-present) embarks on a working visit to the United States (US). Kroll completes its sovereign debt audit of Mozambique state-owned entities Empresa Moçambicana de Atum SA (Ematum), Proindicus, and Mozambique Asset Management (MAM). Italy-based ENI formally approves its \$8 billion Coral South floating liquefied natural gas (FLNG) project. The European Air Safety Committee (EASC) removes all Mozambican airlines from the European Union (EU) Air Safety List. Switzerland-based commodity traders Vitol and Gunvor reportedly show interest in buying Mozambique state-owned petroleum products distributor Petroleos de Mocambique (Petro Moc). Standard Bank increases Mozambique's gross domestic product (GDP) growth forecast.*

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#### Renamo accuses government of truce violations

Mozambican media reported on 31 May that opposition party **Resistencia Nacional Moçambicana (Renamo)** spokesman **António Muchanga** accused the government of ceasefire violations.<sup>1</sup> Despite the allegations, it appears that President **Filipe Nyusi** (2015-present) and Renamo leader **Afonso Dhlakama** are committed to a final peace agreement and will not derail the negotiation process.<sup>2</sup> Muchanga claimed that Mozambican security forces used death threats to force Renamo members in **Tsangano District (Tete Province)** to relocate to **Moatize District (Tete Province)** and **Malawi**.<sup>3</sup> Muchanga also claimed that government security forces killed and allegedly tortured two Renamo supporters in **Gorongosa District (Sofala Province)** over the past two weeks. **Polícia da República de Moçambique (PRM)** (national police) representatives in Sofala and Tete provinces both rejected Muchanga's allegations.<sup>4</sup>

#### Nyusi visits US

President Nyusi arrived in the **United States (US)** on 13 June on a three-day working visit. The main objective of Nyusi's visit is to attract US investment and strengthen political ties.<sup>5</sup> Nyusi was taking part in the 11th biennial **US-Africa Business Summit**, an initiative of the **Corporate Council on Africa (CCA)**, during which he promoted opportunities for US investors in Mozambique's extractive industry, agriculture and agricultural processing, and tourism sectors.<sup>6</sup> While in the US, Nyusi held talks with US secretary of state **Rex Tillerson**, one of the individuals who pushed for US-based **Exxon Mobil's** investment in Mozambique,<sup>7</sup> and US commerce secretary **Wilbur Ross**.<sup>8</sup> Nyusi also met **Anadarko Petroleum** president **R.A. Walker** and **General Electric Africa** president **Jay Ireland**, and

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<sup>1</sup> [www.clubofmozambique.com](http://www.clubofmozambique.com)

<sup>2</sup> [www.clubofmozambique.com](http://www.clubofmozambique.com)

<sup>3</sup> [www.clubofmozambique.com](http://www.clubofmozambique.com)

<sup>4</sup> [www.clubofmozambique.com](http://www.clubofmozambique.com)

<sup>5</sup> [www.macaudailytimes.com.mo](http://www.macaudailytimes.com.mo)

<sup>6</sup> [www.macaudailytimes.com.mo](http://www.macaudailytimes.com.mo)

<sup>7</sup> [www.clubofmozambique.com](http://www.clubofmozambique.com)

<sup>8</sup> [www.macaudailytimes.com.mo](http://www.macaudailytimes.com.mo)

senior representative from other US-based companies including **Caterpillar**, **Monsanto** and **Exxon Mobil**.<sup>9</sup>

### Kroll completes sovereign debt audit

**Kroll** delivered the results of its independent sovereign debt audit of Mozambique state-owned entities **Empresa Moçambicana de Atum SA (Ematum)**, **Proindicus** and **Mozambique Asset Management (MAM)**, on 12 May.<sup>10</sup> Kroll's findings are not publicly available at the current time. The **Procuradoria-Geral da República (PGR)** (attorney general's office), is in the process of verifying the information and analysis contained in Kroll's final audit report.<sup>11</sup> **Ari Aisen**, the **International Monetary Fund (IMF)** representative to Mozambique, said,

*"The IMF welcomes the release of the report from international audit experts to Mozambique's state prosecutor ... We await with interest the publication of a summary of the report by the end of the month, and in due time, the full report..."*<sup>12</sup>

The IMF suspended aid due to the ongoing sovereign debt scandal linked to Ematum, Proindicus and MAM (see previous *ARC Briefings* for Mozambique).<sup>13</sup> MAM reportedly failed to make a \$133m loan payment on 24 May.<sup>14</sup> The Mozambique government is the guarantor of MAM's debt, hence it will have ultimate responsibility for MAM's debt servicing obligations, which will increase pressure on the government to reach a debt restructuring agreement with the IMF and commercial creditors.<sup>15</sup> Finance ministry spokesperson **Rogério Nkomo** confirmed the government's ultimate responsibility for the payment of MAM's obligations, but indicated the government's guarantee has not yet been triggered because MAM is still in negotiations with its creditors to establish a new payment plan.<sup>16</sup> Online newspaper **Mediafax** tried to contact MAM chairman **Antonio Carlos de Rosario**, but he was not available for comment.<sup>17</sup>

The Mozambique government first hired Kroll in 2016 to conduct an independent sovereign debt audit into Ematum, Proindicus and MAM within 90 days.<sup>18</sup> Kroll was due to complete its report at the end of February, but the PGR agreed on 13 February to an initial request from Kroll for an extension of 30 days (until 31 March).<sup>19</sup> On 24 March, the PGR agreed to a second request from Kroll for an extension from 31 March to 28 April to produce the final report.<sup>20</sup> On 27 April, the PGR announced a third deadline extension from 28 April to 12 May (see previous *ARC Briefings* for Mozambique).<sup>21</sup>

### ENI formally approves Coral South FLNG project

**Italy-based ENI Spa** formally approved its \$8 billion **Coral South** floating liquefied natural gas (FLNG) project on 1 June.<sup>22</sup> ENI's formal approval of the Coral South FLNG project in the **Rovuma** basin (**Cabo Delgado Province**) is a significant step in the development of Mozambique's offshore LNG sector.<sup>23</sup> In a ceremony held in **Maputo**, Nyusi said,

<sup>9</sup> [www.clubofmozambique.com](http://www.clubofmozambique.com)

<sup>10</sup> [www.news24.com](http://www.news24.com)

<sup>11</sup> [www.news24.com](http://www.news24.com)

<sup>12</sup> [www.news24.com](http://www.news24.com)

<sup>13</sup> [www.news24.com](http://www.news24.com)

<sup>14</sup> [www.macauhub.com.mo](http://www.macauhub.com.mo)

<sup>15</sup> [www.macauhub.com.mo](http://www.macauhub.com.mo)

<sup>16</sup> [www.macauhub.com.mo](http://www.macauhub.com.mo)

<sup>17</sup> [www.macauhub.com.mo](http://www.macauhub.com.mo)

<sup>18</sup> AIM, 13 Feb 2017.

<sup>19</sup> AIM, 13 Feb 2017.

<sup>20</sup> [www.allafrica.com](http://www.allafrica.com)

<sup>21</sup> [www.news24.com](http://www.news24.com)

<sup>22</sup> Multiple sources: Bloomberg, 1 Jun 2017; Reuters, 1 Jun 2017.

<sup>23</sup> Bloomberg, 1 Jun 2017

*"We are finally transforming this resource into money... We expect it will help us to bring the economy back to the performance of the last decade."*<sup>24</sup>

ENI's decision came after the **Conselho de Ministros (CoM)** (council of ministers) approved the financing structure for the 3.4 million metric tonnes per annum (mtpa) Coral South FLNG project on 16 May.<sup>25</sup> The CoM approval allowed Coral South investors to start arranging financing for the development of the project. **Alasdair Reid**, research manager for eastern and southern Africa for oil and gas consultancy **Wood Mackenzie**, emphasised the importance of the Coral South FLNG project and told **Bloomberg** that,

*"This is really good news for the government of Mozambique ... It demonstrates that, despite ongoing credit issues, there is still enough belief in the investment climate for partners to raise finance and move projects forward."*<sup>26</sup>

Mozambique's ongoing sovereign debt crisis is not expected to impact the development of the Coral South FLNG project, but may enhance the risk of the onshore portion of the project which has not yet secured financing.<sup>27</sup> **BMI Research** analyst **Charles Swabey** said the sovereign debt crisis,

*"... is certainly a risk to the onshore project, which has not yet secured the project financing from commercial banks ... The main problems facing the larger onshore project are the struggle to secure long-term contracts in an oversupplied market and the delayed negotiations with Mozambique."*<sup>28</sup>

The Coral South project is the largest project ever approved in Mozambique:

*"The launching of this project is proof that, in spite of the financial crisis caused by secret loans and the country's political difficulties, Mozambique is still capable of attracting massive investment projects and this is likely to trigger other investments in the country."*<sup>29</sup>

However, critics of the Coral South project claim the local content is limited,

*"... as the LNG ship will be built in **Korea**, and then brought and installed in the Mozambican waters, and all the important services and equipment will be procured abroad with international providers. It is also worth mentioning that there will be no significant impact on job creation nationally, as the project will be mostly developed by expats, not to mention that Mozambique will have no domestic gas. Nyusi admitted that this was not the most preferred option for monetization of the Rovuma basin resources. He said this was the 'possible solution' that was found and that the government had to take a number of measures that consisted in waiving the immediate economic advantages of the project in order to secure business viability and sustainability."*<sup>30</sup>

Once built, the FLNG plant will draw gas from the Coral South field, which is expected to start exporting gas in 2022.<sup>31</sup> The Coral South field contains 16 trillion cubic feet (tcf) of gas and has estimated reserves of about 85 tcf, enough to supply **Germany**, the **United Kingdom**, **France** and **Italy** for almost two decades.<sup>32</sup> ENI has already signed a 20-year deal to supply UK-based **BP** with LNG from the Coral South project (see previous *ARC Briefings* for Mozambique).<sup>33</sup>

<sup>24</sup> Bloomberg, 1 Jun 2017

<sup>25</sup> Zitamar, 16 May 2017.

<sup>26</sup> Bloomberg, 1 Jun 2017

<sup>27</sup> Bloomberg, 1 Jun 2017

<sup>28</sup> Bloomberg, 1 Jun 2017

<sup>29</sup> Source, economist, Mozambique.

<sup>30</sup> Source, business analyst, Mozambique.

<sup>31</sup> Reuters, 1 Jun 2017.

<sup>32</sup> Reuters, 1 Jun 2017.

<sup>33</sup> Reuters, 1 Jun 2017.

Exxon Mobil announced on 8 March that it agreed to buy a 25% interest ENI's offshore gas assets in Area 4, which includes the Coral South LNG project, for \$2.8 billion.<sup>34</sup> Exxon Mobil will acquire its 25% through the purchase of a 50% interest in ENI subsidiary **ENI East Africa**'s 71.4% stake in Area 4.<sup>35</sup> **China National Petroleum Corp (CNPC)** owns the remaining 27.6%.<sup>36</sup> Exxon Mobil's purchase price represents a 47% discount on what CNPC paid for its stake in 2013.<sup>37</sup> Under the terms of the agreement, ENI continues to lead the Coral South FLNG project and all upstream activities in area 4, while Exxon Mobil will lead the construction and operation of LNG facilities onshore.<sup>38</sup>

### EU Air Safety Commission clears all Mozambican airlines

The **European Air Safety Committee (EASC)**, on 16 May, removed all Mozambican airlines from the **European Union (EU) Air Safety List**.<sup>39</sup> Mozambican airlines will now be able to fly to **Europe**, which will help boost tourist arrivals and enhance the competitiveness of Mozambique's airlines, particularly state-owned **Linhas Aéreas de Moçambique (LAM)**.<sup>40</sup> The EU Air Safety List lists non-European airlines that do not meet international safety standards, and are therefore subject to an operating ban or operational restrictions within the EU.<sup>41</sup> EU transport commissioner **Violeta Bulc** said,

*"I am glad that we are able to take all carriers from **Benin** and Mozambique out of the air safety list. Their reforms have paid off. This is also a signal to the 16 countries that remain on the list. It shows that work and cooperation pays off. The Commission and the **European Aviation Safety Agency (EASA)** are ready to assist them and raise the safety standards worldwide."*<sup>42</sup>

The EU Air Safety List helps to maintain high levels of safety in the EU, but it also helps affected countries to improve their levels of safety, in order to eventually allow them to operate flights to and from airports in the EU.<sup>43</sup> The EU Air Safety List is based on the unanimous opinion of aviation safety experts from the EU member states who met from 25 to 27 April within the EASC.<sup>44</sup> The **European Commission (EC)** chairs the EASC with the support of the EASA.<sup>45</sup> The EASC assessment is made against international safety standards, notably the standards promulgated by the **International Civil Aviation Organisation (ICAO)**.<sup>46</sup>

### Vitol & Gunvor reportedly interested in buying Petromoc

International media reported on 7 June that **Switzerland**-based commodity traders **Vitol** and **Gunvor** have shown interest in buying Mozambique state-owned petroleum products distributor **Petroleos de Moçambique (Petromoc)**.<sup>47</sup> The investment may help the "cash strapped"<sup>48</sup> company, which is reportedly struggling to reliably supply fuel due to cash shortages.<sup>49</sup> Petromoc owns the largest retail fuel station network, which includes 119 filling stations across Mozambique.<sup>50</sup> Petromoc also owns and operates petroleum product pipelines and 19 inland and coastal storage facilities with a total

<sup>34</sup> Financial Times, 9 Mar 2017.

<sup>35</sup> Financial Times, 9 Mar 2017.

<sup>36</sup> Financial Times, 9 Mar 2017.

<sup>37</sup> Bloomberg, 9 Mar 2017.

<sup>38</sup> Financial Times, 9 Mar 2017.

<sup>39</sup> ec.europa.eu

<sup>40</sup> ec.europa.eu

<sup>41</sup> ec.europa.eu

<sup>42</sup> ec.europa.eu

<sup>43</sup> ec.europa.eu

<sup>44</sup> ec.europa.eu

<sup>45</sup> ec.europa.eu

<sup>46</sup> ec.europa.eu

<sup>47</sup> Reuters, 7 Jun 2017.

<sup>48</sup> Reuters, 7 Jun 2017.

<sup>49</sup> Reuters, 7 Jun 2017.

<sup>50</sup> www.bus-ex.com

capacity of 500,000 cubic metres.<sup>51</sup> Petromoc has a 40% of the fuel distribution market in Mozambique.<sup>52</sup> Other fuel distributors operating in Mozambique include France-based **Total**, Portugal-based **Galp**, and BP.<sup>53</sup>

### Standard Bank revises Mozambique's economic growth upwards

In its 31 May report on **African** markets, **Standard Bank** increased Mozambique's gross domestic product (GDP) growth forecast for 2017 from 3.8% to 4.1%.<sup>54</sup> Standard Bank cited increased commodity exports, an improved outlook for the agricultural sector and potential oil and gas investment as the main driving forces behind the increase.<sup>55</sup> Standard Bank said,

*"The absence of military tension, a better outlook for agriculture and the expectation of a substantial increase in coal production, coupled with the proximity of a final investment decision in the ENI liquefied natural gas project, has led us to increase the prospects of GDP growth in 2017."*<sup>56</sup>

Standard Bank also increased Mozambique's economic growth forecast for 2018 from 4.4% to 5.7%.<sup>57</sup> The recovery, which Standard Bank expects to be led by the private sector, will benefit from a slowdown in inflation and lower interest rates, which are likely to increase private consumption.<sup>58</sup> However, Standard Bank indicated that the positive GDP growth forecast, will not bring benefits regarding the budget deficit, and expects the government to fall short of its targets.<sup>59</sup>

*"It seems unlikely that the government will be able to meet the fiscal targets for 2017 ... the slow recovery of economic activity will probably result in lower tax revenues, at around 20.8% of GDP, against the 23.2% foreseen in the state budget."*<sup>60</sup>

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<sup>51</sup> www.allafrica.com

<sup>52</sup> Reuters, 7 Jun 2017.

<sup>53</sup> Reuters, 7 Jun 2017.

<sup>54</sup> Lusa, 31 May 2017.

<sup>55</sup> Lusa, 31 May 2017.

<sup>56</sup> Lusa, 31 May 2017.

<sup>57</sup> Lusa, 31 May 2017.

<sup>58</sup> Lusa, 31 May 2017.

<sup>59</sup> Lusa, 31 May 2017.

<sup>60</sup> Lusa, 31 May 2017.

### About Africa Risk Consulting:

**Africa Risk Consulting (ARC)** is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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